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**Before the Subcommittee on Conservation, Credit,**  
**Rural Development, and Research**  
**United States House of Representatives**  
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Mr. Chairman and Members of the Committee, I am pleased to appear before you today to review the status of the FSA farm loan portfolio, discuss the impact of certain provisions of the 1996 Farm Bill, and point out some issues of concern for the future. I am not able to provide specific proposals to address some of the issues and concerns today, but we are developing proposals to present to the Committee at a later date.

FSA offers direct and guaranteed farm ownership and operating loans to farmers who are unable to obtain private, commercial credit. FSA borrowers range from beginning farmers and ranchers who cannot qualify for conventional loans because they have insufficient financial resources to established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations. The goal of FSA's farm loan program is to assist eligible individuals and families through outreach, technical assistance, and supervised credit so that they become successful farmers and ranchers. Regardless of the type of loan, FSA's financial assistance provides a safety net for borrowers who have reasonable prospects for economic viability in agriculture.

### **Portfolio Status**

Mr. Chairman, I would like to begin by reviewing the status of the FSA loan portfolio. I am pleased to report that the FSA farm loan portfolio is showing its best performance in many years. As of March 31, 2001, there were 95,842 borrowers owing \$9.5 billion in the direct loan portfolio. In the guaranteed loan portfolio, 40,559 borrowers owe \$8.3 billion. All programs are performing well--direct loan delinquency is the lowest in over 20 years at 12.3 percent, the direct loan loss rate is the lowest since 1987, and we have made progress in reducing the number of delinquent million dollar-plus direct loan accounts, from 748 at the end of fiscal year (FY) 1995 to only 180 at the end of FY 2000. In addition, inventory property numbers are the lowest since 1980. The guaranteed loan portfolio is also performing well. Delinquency is at an all-time low of 1.83 percent, and dollar losses have remained low despite continuing growth of the portfolio. In FY 2000, losses paid were only seven-tenths of one percent of the principal outstanding.

Mr. Chairman, this is particularly noteworthy because, at the same time, FSA loan volume has increased significantly--more than 65 percent in recent years. In FY 1999 and FY 2000, FSA

provided loans and loan guarantees totaling \$7.5 billion to over 71,000 family farmers. Of this total, 24,000 were beginning and socially disadvantaged farmers, who received assistance totaling \$1.9 billion. In FY 2001, demand for FSA's farm loan assistance remains strong. As of March 31, 2001, loans and loan guarantees totaling \$1.5 billion have assisted 15,000 farmers with their credit needs. A significant portion of this loan assistance – \$515 million – has been provided to 6,000 beginning and socially disadvantaged farmers. The lending season is currently at its busiest and most critical time, and FSA is working hard to rapidly process the thousands of applications coming into county offices.

Mr. Chairman, one of the best indicators of program performance comes not from internal statistics, but from the General Accounting Office (GAO). In January of this year, the GAO announced that the FSA farm loan programs were removed from that Agency's list of designated high-risk federal programs. The FSA farm loan programs, and predecessor agency Farmers Home Administration farmer programs, had been designated as high-risk by the GAO for over 10 years.

### **Impact of 1996 Farm Bill Provisions**

I believe there is no single factor, but a combination of several different factors which led to these achievements. First, the 1996 Farm Bill instituted provisions which create strong incentives for FSA borrowers to repay their loans. Prior to these changes, there was no disincentive for borrowers to have FSA debts written off rather than to repay them. The Agriculture Credit Act of 1987 inadvertently created a "revolving door" where borrowers could repeatedly get loans, have them forgiven, and then get new loans. The 1996 Farm Bill included provisions which instituted prohibitions on further FSA loan assistance to borrowers who are delinquent or who have received debt forgiveness, and a one time, \$300,000 limit on debt forgiveness. These limitations have caused FSA borrowers to more carefully consider the consequences of failure to repay their FSA loans.

### **Other Factors**

Provisions of the Debt Collection Improvement Act have also been beneficial. The possibility of offset of FSA program payments and federal income tax refunds, and bars on participation in other federal credit programs provide additional incentives for borrowers to repay their FSA loans.

Obviously, Mr. Chairman, borrowers cannot pay if they do not have money to make payments. The significant amount of government farm payments over the past few years is also a major factor in portfolio performance. I cannot estimate the exact impact of government payments on the FSA portfolio, but clearly, under the conditions we have been experiencing in the agricultural economy, the various payment and compensation programs enacted by Congress have affected many borrowers ability to repay FSA or their other creditors. As you know, FSA only lends to those who cannot obtain credit elsewhere.

I cannot overstate the importance of the tremendous amount of hard work by FSA field staff in implementing the numerous program changes, and in working to help borrowers avoid or resolve delinquencies. FSA employees have logged many long, hard hours working to assist borrowers. This is a difficult, often frustrating task--borrowers are under stress, there are no easy solutions, and sometimes the answer is not the one the farmer wants to hear. It is also important to note, Mr. Chairman, the increase in FSA loan volume and reduction of delinquencies has been achieved with no increase in farm loan staffing levels.

### **Program Streamlining**

Faced with a heavy work load and limited staff, we have developed ways to decrease the paperwork burden for both staff and program customers. Both the guaranteed and direct loan programs now have abbreviated applications for loans of less than \$50,000. In February of 1999, we published regulations which simplified and streamlined the loan guarantee process. The new procedures are more consistent with industry standards and have resulted in faster processing, allowing lenders to give more timely service to farmers in need of a guarantee. Within the next few months, we plan to publish final regulations to dramatically streamline and simplify the emergency loan program for both farmers and FSA staff. We have also undertaken a major initiative to streamline all loan program regulations. When this project is complete, 1,200 pages of text will have been deleted and the number of required forms reduced by almost 30 percent. We have also joined with the other service center agencies in a common Internet web site where customers of FSA, Rural Development, and the Natural Resources Conservation Service can download and complete the forms needed to participate in many agency programs and services (see <http://intranet.fsa.usda.gov/dam/ffasforms/forms.html>).

Mr. Chairman, I have devoted a considerable amount of time addressing the past and present condition of FSA farm loans and progress made. Now I would like to turn to the future.

### **Beginning Farmers**

Any discussion of the future of agriculture must include beginning farmers since they are the future of farming. There is keen interest in this issue, and rightfully so. In 1992, the Agriculture Credit Improvement Act established special programs, and targeted specific FSA loan funding for beginning farmers. The 1996 Farm Bill continued the targeting of funds, and increased the amount of loan funds targeted to beginning farmers. As a result of these provisions, FSA has provided assistance totaling \$3.5 billion to more than 45,000 beginning farmers and ranchers since 1993. While these statistics indicate the program is being used, FSA is not able to loan all the funds the law requires to be targeted to beginning farmers. This should come as no surprise given the current state of the farm economy. When even established farmers are struggling financially. It is extremely difficult for someone with modest financial resources to get started in farming, and it often takes much more than a low-interest FSA loan for a beginning farmer to be successful. An advisory committee on beginning farmers and

ranchers has been established in accordance with the 1992 Act, and it has provided suggestions of new and different ways to assist beginning farmers and ranchers.

## **Revisit 1996 Farm Bill Provisions**

Mr. Chairman, as you consider a new farm bill, there are two areas of the 1996 Farm Bill that I would like to bring to your attention. As I mentioned earlier, certain provisions in that Act have reduced program abuse and resulted in improved loan repayment rates and a stronger loan portfolio. However, Mr. Chairman, there is one provision in particular that I call to your attention. As amended by the 1996 Act, section 373 of the Consolidated Farm and Rural Development Act (CONACT) imposes a lifetime ban from FSA loans for anyone who has an FSA farm loan debt forgiven. Certainly there must be limitations to avoid program abuses such as the “revolving door” situation I described earlier. However, you may wish to consider whether a different approach is possible—one that will prevent the abuse targeted by the 1996 change, but allow farmers who have had FSA farm loan debt forgiven to have another opportunity to become eligible for FSA loans in the future.

The second provision from the 1996 Farm Bill that I mention is operating loan term limits. A limitation on the length of time a person may receive FSA farm operating loans was imposed by the Agriculture Credit Improvement Act of 1992, and substantially amended by section 611 of the 1996 Farm Bill. Implementation of this provision was subsequently suspended, through December 31, 2002, by section 255 of the Agricultural Risk Protection Act (ARPA) of 2000. The statement of managers accompanying the ARPA conference report noted that the provision was suspended until debate on it could occur as a part of development of the new farm bill. It is possible that a farmer reaching the term limit under economic conditions like those today may have done everything right and still be unable to get private sector financing. The committee may wish to review this provision further.

## **New Issues for Consideration**

Mr. Chairman, I have been requested to alert the Committee to other issues that may warrant attention as a new Farm Bill is developed. I appreciate the opportunity to submit these items for your consideration.

The FY 1999 Appropriations Act amended the CONACT to require that FSA accept a projected repayment ability to make an Emergency Loan or EM loans, if the available collateral is not adequate to secure the loan. The result is FSA is making EM loans without adequate tangible collateral. This marks a return to past policies which resulted in multi-billion dollar losses. When the GAO removed the high-risk designation from FSA Farm Loan Programs, they cited efforts by FSA and by Congress to put safeguards in place to reduce the potential for waste and abuse. The GAO also stated that “USDA and the Congress need to continue to monitor the effects of the positive actions already taken to ensure that improvements in the financial integrity of the farm loan programs continue.” To make a loan based on the applicant’s projected repayment ability re-introduces a high risk factor into the program. There is again potential for significant loan losses which will, in turn increase loan subsidy rates and program costs. Beyond the fiscal impact, one could question

the benefit of this provision to farmers. It allows farmers to borrow beyond the point of any remaining equity they may have, so that if they aren't able to recover from the disaster, they literally walk away with nothing.

The issue of Shared-Appreciation agreements is one that I am sure some of the Committee members are familiar with. These agreements were entered into as a part of the process of writing down or writing-off then Farmers Home Administration (now FSA) debts under the provisions of the Farm Credit Act of 1987. A significant number of these agreements are now coming due. Under the current economic conditions, many farmers may not be able to pay the amount due under their agreement. FSA has taken extensive administrative action to mitigate the impact of these agreements. However, even with deferral of payments and development of longer-term repayment schedules, some farmers will not be able to keep the agreement and will face liquidation. Any additional relaxation of the requirements of these agreements will require legislation.

Mr. Chairman, there is another situation I want to bring to the Committee's attention. As we help borrowers deal with financial problems, especially those beyond their control, we strive to be positive and pro-active. One action taken to help farmers through tough times is the deferral of a loan installment to the end of the loan. This is an action that has been taken primarily to help borrowers through weather-related cash shortfalls. However, in 1998 and 1999, FSA also provided this option to farmers who could not pay installments due to low commodity prices. These installments were deferred to the end of the loan in the belief that during the remaining term of the loan, the borrower would recover and be in a position to restructure, refinance, or otherwise pay the deferred installment. As of March 31 of this year, 15,862 borrowers had these deferrals on one or more loans. Continued prices at current levels will mean that many of these borrowers may not repay the remaining balance when the loans mature. Current plans are to utilize the existing loan servicing authorities in the regulations to address these situations, limiting account liquidations.

In summary, Mr. Chairman, we have come a long way since 1987, and even since 1996, but success is a journey, not a destination and we still have a long, challenging trip ahead. We look forward to working with the Committee as you wrestle with the issues I have raised today, and other complex farm lending issues as well. This concludes my statement. I will be glad to answer any questions.

Thank you, Mr. Chairman, for the opportunity to testify today and I will be happy to respond to your questions.

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